

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Road Commission for Oakland County Retirement System</u> (Component Unit)	County Oakland
Audit Date December 31, 2003	Opinion Date April 21, 2004	Date Accountant Report Submitted To State: June 1, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

# **Road Commission for Oakland County Retirement System**

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**Financial Report  
with Required Supplemental Information  
December 31, 2003**

# Road Commission for Oakland County Retirement System

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## Independent Auditor's Report

To the Board of Trustees  
Road Commission for Oakland  
County Retirement System

We have audited the statement of plan net assets of the Road Commission for Oakland County Retirement System (a component unit of the Road Commission for Oakland County) as of December 31, 2003 and the statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Road Commission for Oakland County Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets available for benefits of the Road Commission for Oakland County Retirement System as of December 31, 2003 and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the method of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

April 21, 2004

# Road Commission for Oakland County Retirement System

## Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Road Commission for Oakland County Retirement System (the "System") provide an overview of the System's financial activities for the calendar years ended December 31, 2003 and 2002. Please read this in conjunction with the financial statements.

### Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

### Condensed Financial Information

The table below displays key financial information in a condensed format for the years ended December 31, 2003 and 2002:

	2003	2002
Total assets	\$ 172,484,712	\$ 148,814,036
Total liabilities	22,294,572	17,359,667
Net assets held in trust for pension benefits	<u>\$ 150,190,140</u>	<u>\$ 131,454,369</u>
Net investment income (loss)	\$ 22,847,232	\$ (13,656,399)
Employer contributions	1,895,360	1,573,200
Benefit payments	6,006,821	5,354,734

### Overall Fund Structure and Objectives

The System was established to provide retirement, disability, and death benefits to plan members, retirees, and their beneficiaries. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

# Road Commission for Oakland County Retirement System

## Management's Discussion and Analysis (Continued)

### Asset Allocation

In its Statement of Investment Policy, Guidelines, and Objectives (SIPGO), the System's Board of Trustees ("Trustees") established its asset allocation policies, which are expected to provide sufficient long-term investment income to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the asset allocation guidelines as of December 31, 2003 and 2002:

Equities:	
Large cap growth	17.5%
Large cap value	17.5%
Small cap	10.0%
International	10.0%
Fixed income	<u>45.0%</u>
Total	<u>100.00%</u>

### Economic Factors, Investment Returns, and Other Important Matters

In early 2003, the U.S. stock market rebounded from its previous three-year downward spiral. Lead by a surge in productivity and by an increase in capital investment and inventory rebuilding, the equity markets provided investors with double-digit rates of return. However, the short-term economic outlook remained cautious due to the continued uncertainty about future interest rate levels and the news of a "jobless recovery."

Because the stock market is the principal investment forum utilized by the System, the market's 2003 market rate of return had a positive impact on the System. In 2003, the value of the System's net assets held in trust for pension benefits increased by 14.3 percent, following the prior year's decrease of 11.7 percent. It is important to note that the System's purpose is to provide long-term benefit payments to its members and it is through long-term investing as shown by the current year increase that these promised benefits will be primarily funded. Through its SIPGO asset allocation, the Trustees have positioned the portfolio for this long-term investment objective. In addition, to further maximize investment returns, the Trustees carefully monitor the performance of each of its investment managers and take the necessary corrective actions to ensure acceptable investment results.

Since the System receives all of its new funding from its plan sponsor, the Road Commission for Oakland County's annual contribution is critical for the System's long-term viability. The plan administrator diligently ensures that this actuarially computed amount is paid into the System.

# **Road Commission for Oakland County Retirement System**

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## **Management's Discussion and Analysis (Continued)**

### **Contacting the System's Financial Management**

This financial report is designed to provide the public, citizens, and other interested parties a general overview of the System's finances and to show the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Oakland County administrative offices at 31001 Lahser Road, Beverly Hills, Michigan 48025.

# Road Commission for Oakland County Retirement System

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## Statement of Plan Net Assets December 31, 2003

### Assets

Cash and short-term investments	\$ 3,840,660
Receivables - Interest and dividends	697,117
Investments:	
U.S. government obligations	8,319,770
U.S. agencies obligations	24,764,008
Corporate bonds	27,971,581
Corporate stocks	85,155,469
Interest in investment pool	<u>21,736,107</u>
 Total investments	 <u>167,946,935</u>
 Total assets	 <u>172,484,712</u>

### Liabilities

Accounts payable - Brokers and other - Net	558,465
Securities lending collateral payable	<u>21,736,107</u>
 Total liabilities	 <u>22,294,572</u>

**Net Assets Held in Trust for Pension Benefits** (a schedule of funding progress is presented in the required supplemental information)

**\$ 150,190,140**



# Road Commission for Oakland County Retirement System

## Statement of Changes in Plan Net Assets Year Ended December 31, 2003

### Additions

Investment income:

Interest and dividends	\$ 4,901,885
Net appreciation in fair value of investments	18,865,783
Less investment expenses	<u>(920,436)</u>

Net investment income 22,847,232

Employer contributions 1,895,360

Total net additions 24,742,592

**Deductions - Benefit payments** 6,006,821

**Net Increase** 18,735,771

### Net Assets Held in Trust for Pension Benefits

Beginning of year 131,454,369

End of year \$ 150,190,140

# Road Commission for Oakland County Retirement System

**Notes to Financial Statements  
December 31, 2003**

## **Note 1 - Summary of Significant Accounting Policies**

The Road Commission for Oakland County Retirement System (the "System") is a single-employer defined benefit pension plan that is administered by the Road Commission for Oakland County Retirement System Board of Trustees. This plan covers substantially all employees of the Road Commission for Oakland County. The System's financial statements are also included in the combined financial statements of the Road Commission for Oakland County as a pension trust fund.

**Basis of Accounting** - The System uses the accrual method of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Method Used to Value Investments** - Investments are recorded at fair value, based on quoted market prices.

## **Note 2 - Plan Description**

The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The obligation to contribute to and maintain the System for these employees was established by negotiation with various collective bargaining units or other actions of the Oakland County Board of Road Commissioners. At December 31, 2002, the date of the most recent actuarial valuation, membership consisted of 408 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, 358 vested active employees, and 186 nonvested active employees.

## **Note 3 - Contributions**

Plan members are no longer required to contribute to the plan. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed by the Road Commission for Oakland County.

## **Note 4 - Reserves**

As of December 31, 2003, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 281,104
Reserve for retired benefit payments	60,609,698

# Road Commission for Oakland County Retirement System

## Notes to Financial Statements December 31, 2003

### Note 5 - Cash, Investments, and Securities Lending

Cash and short-term investments represent bank account deposits of approximately \$518,000 and brokerage short-term funds of approximately \$3,322,000. The bank deposits are covered by up to \$100,000 of federal depository insurance. Each of the accounts of the System's six investment managers is insured by the Securities Investors Protection Act, up to \$500,000 to replace cash (up to \$100,000), stocks, or bonds held by the broker-dealer.

	<u>Total Fair Value</u>
Investments - Category 2 (Held by the System's counterparty in the System's name):	
U.S. government debt obligations	\$ 8,319,770
U.S. agencies debt obligations	16,338,723
Corporate obligations	26,848,932
Corporate equities	<u>73,656,115</u>
Subtotal	125,163,540
Investments - Not categorized:	
Investments held by broker-dealers under collateralized securities loans:	
U.S. agencies debt obligations	8,425,285
Corporate debt obligations	1,122,649
Corporate equities	11,499,354
Securities lending short-term collateral interest in investment pool	<u>21,736,107</u>
Total	<u>\$ 167,946,935</u>

State statutes and Board of Trustees' policies permit participation of the System in securities lending transactions. The System, via a securities lending authorization agreement, authorized the custodial bank to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

During the year ended December 31, 2003, the custodial bank, at the direction of the System, lent securities and received United States currency as collateral. Borrowers were required to deliver collateral for each loan equal to at least 100 percent of the market value of the loaned securities.

# Road Commission for Oakland County Retirement System

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**Notes to Financial Statements  
December 31, 2003**

## **Note 5 - Cash, Investments, and Securities Lending (Continued)**

The System did not impose any restrictions during 2003 on the amount of the loans that the custodial bank made on its behalf. There were no failures by any of the borrowers to return loaned securities or pay distributions thereon during 2003. There were no losses to the System or the custodial bank during 2003 resulting from default of the borrowers.

During 2003, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of the other lenders in a pool. The average duration of this investment pool as of December 31, 2003 was 116 days. Because the loans could be terminated on demand, their duration did not generally match the duration of the investments made with cash collateral. The collateral held and the fair values of underlying securities on loan for the System as of December 31, 2003 were \$21,736,107 and \$21,047,288, respectively.

The System is authorized by the State's Pension Investment Act to invest in common stocks, real estate, and various other investment vehicles, subject to certain limitations. There were no investments during the year in any one organization (other than the U.S. government) in excess of 5 percent of plan net assets. All investment securities are uninsured, unregistered, and held by the counterparty's trust department in the System's name except for those assets lent under security lending arrangements or held as the related collateral. Included in the System's investment portfolio at December 31, 2003 are the following securities:

- Approximately \$19,746,000 of collateralized mortgage obligations and pools are held in government agency debt obligations. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. However, approximately \$2,164,814 of the government agency-held pools are guaranteed agency debt at December 31, 2003. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

# Road Commission for Oakland County Retirement System

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**Notes to Financial Statements  
December 31, 2003**

## **Note 5 - Cash, Investments, and Securities Lending (Continued)**

- Approximately \$4,503,000 of asset-backed securities are included in corporate bonds. These securities are backed by credit card or other receivables and typically include credit enhancements in the form of over-collateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer moderate credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayment of these “pay-through” securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.

## **Note 6 - Risk Management**

The System’s exposure to risks of loss, other than investment market loss, is minimal. Exposure is limited primarily to errors and omissions. The System manages this risk by participating with the Road Commission for Oakland County in its partially self-insured liability program.

## **Required Supplemental Information**

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# Road Commission for Oakland County Retirement System

## Required Supplemental Information Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Overfunded) AAL (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll (c)	(Overfunded) AAL as a Percentage of Valuation Payroll
12/31/97	\$ 104,468,909	\$ 98,402,461	\$ (6,066,448)	106.2	\$ 24,429,429	(24.8)
12/31/98*	117,790,193	102,590,655	(15,199,538)	114.8	24,177,412	(62.9)
12/31/99	131,926,367	116,292,106	(15,634,261)	113.4	25,345,063	(61.7)
12/31/00	143,780,578	122,490,587	(21,289,991)	117.4	25,409,923	(83.8)
12/31/01	150,647,599	127,603,386	(23,044,213)	118.1	26,570,231	(86.7)
12/31/02	149,363,853	132,828,911	(16,534,942)	112.4	26,759,461	(61.8)

\* Change in actuarial assumptions

Note: The December 31, 1998 information does not reflect the effect of a change in benefit calculation committed to by the Road Commission for Oakland County in 2000. The retroactive effect of this change on the actuarial accrued liability has been calculated and is reflected as of December 31, 1999.

Analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and overfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded actuarial accrued liability as a percentage of annual valuation payroll approximately adjusts for the effects of inflation and aids analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

# Road Commission for Oakland County Retirement System

## Required Supplemental Information Schedule of Employer Contributions

Year Ended December 31	Annual Required Contribution	Percentage Contributed
1998	\$ 3,223,200	100.0
1999	2,861,250	100.0
2000	2,494,250	100.0
2001	2,235,000	100.0
2002	1,573,200	100.0
2003	1,895,360	100.0

The information presented above was determined as part of the actuarial valuations as of the year before the dates indicated. Additional information as of December 31, 2002, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age, normal cost
Amortization method	Level percent of payroll contributions, closed periods
Remaining amortization period	16 years
Asset valuation method	Market value with five-year smoothing of gains and losses
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.5% to 8.0%
Cost of living adjustments	None

\* Includes pay inflation at 4.5%